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SUMMARY OF SOVIET DELAYS IN FULFILLING OBLIGATIONS
UNDER TRADE AGREEMENTS

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SUMMARY OF SOVIET DELAYS IN FULFILLING OBLIGATIONS
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Summary and Conclusions

Bilateral trade arrangements negotiated between the USSR and non-Soviet Bloc countries in the postwar period have ranged from firm commercial contracts in which each of the parties is legally obligated to perform specified acts to bilateral trade agreements in which the participants have agreed to "facilitate" the exchange of specified quantities of commodities.

Soviet performance in these arrangements has been directly related to the legal commitment assumed by the USSR. In negotiating contracts, the USSR carefully defines the terms and specifications involved and upon signing a contract can be expected to meticulously fulfill the commitments assumed in the contract.

The commodity exchanges scheduled in bilateral trade agreements are, in effect, goals which the negotiators of the agreement consider attainable, but not the volume of trade which will materialize. The bulk of the trade of the non-Bloc trading partners will be in the hands of private traders who will respond to price and demand considerations which may be of relatively minor importance in the decisions of the Soviet trade monopoly participating in the scheduled trade. Because the exchanges scheduled in trade agreements are frequently little more than optimistic targets "proposed" by the negotiators of the agreement, the planned levels of trade are rarely attained.

An attempt to analyze Soviet delays in fulfilling obligations under trade agreements by comparing the planned levels announced at the time of the signing of the agreement and the actual trade reported by the non-Bloc trading partners is subject to several substantive criticisms as well as a number of technical problems which require that the results indicated be used with caution. Soviet performance of trade agreement commitments has been analyzed in a limited number of cases where it has been possible to compare projected trade with the trade which actually materialized. As might be expected from the nature of bilateral trade agreements, Soviet deliveries have rarely attained the levels proposed in the agreement. Responsibility for the failure to achieve planned levels of trade cannot be assessed, and there is no evidence (a) that Soviet performance lagged behind that of the trading partners or (b) that the performance in those agreements in which the USSR participated was relatively less than in agreements between non-Soviet Bloc countries. Planned levels of trade have been attained only in those cases where the optimistic schedules of the early (prior to the "cold war") postwar period have been drastically revised downward.

Relations between the USSR and the Satellites furnish a few cases in which Soviet bad faith and arbitrariness may be inferred and which apparently are not characteristic of Soviet relations with non-Soviet Bloc countries. The arbitrariness reported may be related to the preponderance of bargaining power which the Soviet negotiators are able to wield in negotiations with Satellite economies. While it is possible to infer that the Soviet actions have been motivated by bad faith, such conclusions are unwarranted in the absence of additional evidence to corroborate the fragmentary information presently available.

Postwar bilateral trade arrangements in which the USSR has participated have included publicized offers to supply commodities, bilateral trade and payments agreements, clearing agreements, compensation agreements, barter agreements, and commercial contracts.

Soviet negotiations, performance, and policies in its trade relations with non-Soviet Bloc countries are in contrast to its behavior toward the Satellites.

~~S-E-C-R-E-T~~

S-E-C-R-E-T

This behavior is obviously related to the extension of control by the USSR over the Satellites that permits the USSR to impose arbitrary decisions serving the interests of the USSR on its Bloc trading partners which it is unable to do in its relations with Western countries.

In general, the Soviet performance, in relations with non-Soviet Bloc countries, as well as with her Satellites, has been directly related to the degrees of legal compulsion established in the arrangement. Where the bilateral arrangement had the effect of a legal contract, Soviet behavior has been meticulous and the terms of the agreements have been carefully executed. 1/

On the other hand, where the bilateral arrangement consisted merely of an offer to sell, the USSR has been quick to publicize offers for their propaganda value without apparent intention of actually executing a contract. At the March 1950 meeting in Geneva of the Agricultural Committee of the Economic Commission for Europe (ECE), the Soviet delegate stated that his country was prepared to sell large quantities of grain to Western Europe. Three days later, the Soviet delegate refused to agree to any concrete procedure for implementing his proposal. The Soviet offer to sell grains, therefore, appeared to be merely a propaganda gesture. 2/ Similarly, in the spring of 1951 the USSR made a dramatic offer to assist India in its food supply crisis. Indian attempts to pin down the nature of the assistance produced only a Soviet offer to supply grain at prices significantly higher than world prices.

Distinguished from these extremes in possible bilateral arrangements are the tentative plans or targets set up by bilateral trade agreements to govern trade between the USSR and other countries. The postwar bilateral trade agreements to which the USSR has been a signatory have conformed to the postwar pattern of trade and payments arrangements, and the Soviet performance under these agreements seems to have been comparable to that of its trading partner to the agreement, and probably comparable to the average performance of non-Soviet Bloc countries in their mutual agreements.

Trade agreements are not firm contracts but constitute a framework within which further negotiations take place on specific prices and delivery dates between the Soviet foreign trade monopolies, on one hand, and non-Bloc businessmen with or without the assistance of their governments, on the other. They merely authorize rather than guarantee the exchange of goods. This authorization is usually made by commitments to grant import and export licenses for specified commodities or groups of commodities, with quantities and/or values indicated in the agreement schedules. Frequently the schedules set forth the quotas in terms of quantities for some items and values (total or average prices) for others; in other cases the agreements do not stipulate total value or expected turnover.

Occasionally the non-Bloc country participating in an agreement with the USSR will go a step beyond the commitment to issue licenses and will agree to "facilitate the placing of orders" by the USSR with their domestic manufacturers. However, even this type of commitment is far removed from a contract and embodies no legal obligation. Occasionally a non-Bloc government has guaranteed delivery of certain commodities subject to the control of that government, such as Belgium in the case of tin and the UK with respect to surplus property rails that it committed to deliver to the USSR under the 1947 agreement. 3/

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1. [REDACTED] 28 May 1951, Secret/U.S. Officials Only: "The Soviets are well known to adhere scrupulously and meticulously to the terms of all international business transactions to which they have committed themselves."

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2. [REDACTED] 25 Jun 1951, Secret/U.S. Officials Only: "To my knowledge, Soviets have not breached any contract with fertilizer brokers during 1950 and 1951 and they continue to honor any signed agreement once the details of a contract have been agreed to."

2. New York Times, 23-26 Mar 1950. Also see accounts of current Soviet offers being publicized in connection with the Moscow Economic Conference. New York Times, 6 Apr 1952, pp. 1-2; New York Times, 7 Apr 1952, p. 4.

3. OIR Report No. 5164, "East-West Trade and Payments Agreements" (Preliminary Version), 3 Feb 1950, p. 4.

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Since the commodity exchanges scheduled in bilateral trade agreements do not represent firm contracts but are in the nature of objectives or targets within which trade might be expanded, depending upon the international price and demand conditions which will motivate the traders in the non-Bloc trading partner, actual trade tends to fall short of the planned levels of exchanges.

An attempt to analyze Soviet failures to fulfill commitments under trade agreements, by comparing agreed schedules of commodity exchanges with actual trade, is subject to severe limitations. First, it is difficult, if not impossible, to assess the responsibility for failure to execute the planned exchanges. Actual trade may fall significantly short of the planned exchanges, and yet there may have been a strong effort made by the respective partners to fulfill the plans. The apparent Soviet failure to execute the planned trade may be attributable to Soviet reluctance to permit exports to the trading partner to exceed imports from the trading partner. In the majority of the cases analyzed in Table 1 (see Appendix), the rates of performance to plan is higher for the USSR than for the trading partner.

In addition to these substantive problems created by the voluntary nature of trade agreements, the following technical problems limit the validity of an attempted comparison of projected trade and planned trade.

(a) The period of trade agreements rarely coincides with the period covered by available trade statistics. In those cases where the periods normally coincide, the trade statistics will not include exchanges for which contracts have been executed but for which goods have not been shipped.

(b) Frequently there are other agreements superimposed upon trade agreements. For example, the USSR and Denmark have executed a series of barter agreements in addition to the bilateral trade agreement, while a significant portion of the Sweden-USSR trade has been conducted under the long-term (1946) credit agreement outside the yearly trade agreements. The available trade statistics rarely are in sufficient detail to segregate trade where more than one agreement exists.

(c) Projected trade values which are announced at the signing of the agreements do not take in consideration changes in commodity prices or exchange rates which would be reflected in the trade statistics.

(d) Schedules of commodity trade under agreements are frequently expressed in volume terms, while trade statistics are customarily available in value terms. In a few cases (see Appendix, Table 2) a comparison of the projected and planned volume of trade has been possible.

(e) Commodity classifications used in the schedules of projected trade may not correspond to those used in reporting actual trade.

Table 1 presents a comparison of the planned value of trade in a limited number of bilateral trade agreements between the USSR and non-Bloc countries and the actual value of trade during the period of the trade agreement. The number of agreements analyzed has been limited by time available, and the table should not be considered inclusive either in respect to (a) the number of agreements analyzed or (b) to possible refinement of the detailed statistics.

Table 2 presents a comparison of the volume of a limited number of commodity exchanges projected under various bilateral trade agreements signed by the USSR. The number of exchanges analyzed has been limited by the available time, and the table should not be considered as including all the transactions which are subject to such analysis.

In addition to the tabulated comparisons which indicate that trade agreement targets are rarely fulfilled, a number of other examples may be cited from trade relations between the USSR and the West which shed some light on the attitude of the USSR toward commitments assumed in trade and payments agreements.

In November 1946, Sweden signed a 5-year credit agreement with the USSR under which Sweden extended a credit of kr. 1 billion to finance USSR purchases of Swedish goods. At the completion of this agreement at the end of 1951 the USSR

S-E-C-R-E-T

had used only kr. 450 million to 460 million of the credit, and actual deliveries under the agreement amounted to kr. 330 million. 1/ At the time of the negotiations of the credit agreement in 1946, it was announced that USSR-Swedish trade outside the credit agreement and under a clearing agreement to be negotiated each year would total kr. 100 million yearly at 1946 prices. However, trade outside the credit agreement (at current prices) amounted to kr. 82 million in 1947, kr. 60 million in 1948, 2/ and kr. 67 million in 1950, and in 1951 the clearing agreement called for exchanges totalling only kr. 80 million. Swedish authorities have been frustrated by the limited number of raw materials and the very few finished products which the USSR has to offer in trade. 3/

Soviet tactics in trade negotiations with Iceland in 1946 and 1947 were clearly motivated by political-strategic considerations which were related to the simultaneous US negotiations with Iceland over airfield privileges. 4/ In 1946 the USSR negotiated an agreement with Iceland which called for exports from the USSR of \$1.6 million and exports from Iceland to \$11.4 million. The Soviets offered very favorable prices and made concessions beyond the expectations of the Icelandic negotiators. Actual deliveries under the agreement concluded were exports from the USSR of \$1.7 million and Iceland deliveries of \$8.9 million. In October 1946, in anticipation of a new agreement, the USSR announced that it was willing to contract for Iceland's entire export surplus of fish in 1947 and tentatively suggested the very favorable price of \$60 million. In the meantime, the Keflavik Airport Agreement between the US and Iceland was concluded, following which the Soviet trade delegation departed for the USSR and USSR-Iceland trade was reduced by 1948 to imports (to the USSR) of \$100,000 and exports (from the USSR) of \$900,000.

While Soviet behavior in trade relations with non-Bloc countries has in general been correct and formal, an examination of relations with the Satellites reveal a number of cases of bad faith and/or fraud or chicanery on the part of the USSR. For example, it has been reported 5/ that postwar Czechoslovak production of iron and steel products has been adversely affected by Soviet supplies of low-grade Krivovag iron ore. Although these deposits are known to be of high grade, Soviet authorities shipped the powdered tailings left from German exploitation of these deposits. In another case, 6/ during 1949 the Soviets sold to Czechoslovakia 20 W-12 passenger airplanes. The eight which were delivered during 1949 were found to be practically useless because of unreliable flight instruments, poor engines, and generally shoddy construction. As a consequence, the Czechs grounded all these planes indefinitely and cancelled all future deliveries. In another case, 7/ engineers employed in the Rumanian radio industry stated that 50 percent of the vacuum tubes furnished by the USSR were imperfect. The Soviets claimed that tubes were broken in transport.

Another dubious practice of the USSR is that of insisting on deliveries of high-quality textile products from the Satellites and, in turn, supplying them with low-quality cotton. 8/ Another report 9/ indicated that the USSR failed to deliver machines and materials to Bulgaria as "arranged," although Soviet experts appeared as scheduled and were paid at an exorbitant rate while waiting

~~S-E-C-R-E-T~~

for the Soviet deliveries which did not appear. Under the Soviet-Hungarian trade agreement, valid 1 August 1948 through 31 December 1949, the USSR agreed to deliver 400,000 metric tons of coke at \$23 per ton. By April 1949, only 120,000 metric tons had been delivered, most of it Polish coke purchased by the USSR for \$17.50 per ton. According to the terms of the agreement, the USSR was to pay freight costs amounting to \$4.32 per ton, yet, despite Hungarian protests, coke consignments arrived with the freight unpaid, and Hungarian iron and steel plants were compelled to pay the freight charges. 1/

Still another Soviet practice is that of disrupting markets. In dealing with the Satellites, for instance, the Soviets are able through superior bargaining power or otherwise to negotiate favorable prices and then to realize a profit by re-exporting at higher world prices. 2/

In January 1950 the Yugoslav Foreign Minister reported that the Soviets had abrogated the investment agreement of 25 July 1947 calling for a Soviet credit of \$135 million, after deliveries equivalent to only \$600,000, while the USIA reneged an obligation to deliver turbines valued at \$1 million to Yugoslavia. 3/ The Yugoslav Ministry of Heavy Industry reported on January 1950 that the USSR had failed to deliver 2,500 tons of Manganese ore as agreed. Yugoslavia paid in advance the sum of 420.6 million dinars for shipments which were not delivered in 1949 as agreed. 4/

The USSR, through local Communist parties and economic and political pressures, has achieved broad control over the Satellite economies. In exercising this control, the USSR deprives the Satellites of economic sovereignty, subordinates the weaker areas, and shows little or no regard for the national needs of these states. This control permits the USSR (a) to monopolize foreign trade and to impose trade priorities on the Satellites 5/; (b) to circumscribe the sovereignty of the Satellites 6/; (c) to insist upon the establishment of joint companies, 7/ which are a convenient device enabling the Soviet to exploit the Satellite economies; (d) to manipulate prices arbitrarily in the interests of the USSR at the expense of the Satellites 8/; and (e) to force the Satellites to accept deliveries or to supply exports to the USSR which would otherwise not be made. 9/

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- 5 -

~~S-E-C-R-E-T~~

S-E-C-R-E-TAPPENDIX

Table 1

Comparison of Scheduled Deliveries under Bilateral Trade Agreements
of the USSR with Actual Trade as Reported by Certain
Non-Soviet Bloc Trading Partners* a/

| | | Million \$US | |
|--------------------------------------------------------------|--|--------------------------------------|------------------------------------|
| <u>Country</u> | | <u>Imports from the USSR</u> | <u>Exports to the USSR</u> |
| <u>Belgium-Luxembourg</u> | | | |
| Trade Agreement Covering Period 1 Jan 1948 to 31 Dec 1948 | | | |
| Projected Trade b/ | | 90.0 | N.A. |
| Actual Trade | | 50.1 | 20.2 |
| Trade Agreement Covering Period 1 May 1950 to 30 Apr 1951 | | | |
| Projected Trade g/ | | 12-14 | 12-14 |
| Actual Trade | | 14.4 d/ | 12.8 d/ |
| <u>Denmark</u> | | | |
| Trade Agreement Covering Period 1 Jul 1948 to 31 Dec 1949 | | | |
| Projected Trade a/ | | 31.3 | 31.3 |
| Actual Trade g/ | | 11.5 | 18.4 |
| <u>Italy</u> | | | |
| Trade Agreement Covering Period 1 Jan 1949 to 31 Dec 1949 | | | |
| Projected Trade g/ | | 50.0 | 50.0 |
| Actual Trade | | 16.5 | 17.8 |
| Trade Agreement Covering Period 1 Jan 1949 to 31 Dec 1951 | | | |
| Projected Trade h/ | | 100.0 | 100.0 |
| Actual Trade | | 63.7 i/ | 56.8 j/ |
| Trade Agreement Covering Period 1 Jan 1950 to 31 Dec 1951 | | | |
| Projected Trade j/ | | 50.0 | 50.0 |
| Actual Trade | | 47.2 | 39.0 |
| <u>Netherlands</u> | | | |
| Trade Agreement Covering Period 1 Jul 1948 to 30 Jun 1949 | | | |
| Projected Trade k/ | | 34.0 | 34.0 |
| Actual Trade | | 12.5 l/ | 5.8 l/ |

* Footnotes on next page.

S-E-C-R-E-T

Table 1 (Continued)

Norway

Trade Agreement Covering
Period 1 Jan 1949 to 31 Dec 1949

| | | |
|------------------------------------|--------------|--------------|
| Projected Trade m/ Actual Trade | 18.1 22.0 | 20.2 20.5 |
|------------------------------------|--------------|--------------|

Sweden

Trade Agreement Covering
Period 1 Jan 1949 to 31 Dec 1949

| | | |
|------------------------------------|------------|----------------|
| Projected Trade m/ Actual Trade | 7.0 2.8 | 12.5 5.2 g/ |
|------------------------------------|------------|----------------|

Switzerland

Trade Agreement Covering
Period 1 Apr 1948 to 31 Mar 1949

| | | |
|------------------------------------|-------------|-------------|
| Projected Trade m/ Actual Trade | 27.8 4.9 | 27.4 7.6 |
|------------------------------------|-------------|-------------|

- a. Unless otherwise indicated, actual trade figures were taken from UN Statistical Papers, Series T, Vol. 1, No. 1, Direction of International Trade.
- b. DRS, Info. Paper 4, 22 Jan 1951, p. 25. Scheduled Belgium-Luxembourg exports to the USSR not available.
- c. [REDACTED]
- d. Average annual trade with the USSR reported by Belgium for calendar years 1950 and first half of 1951.
- e. DRS Info. Paper 4, 22 Jan 1951, p. 25.
- f. Trade with the USSR reported by Denmark for 1949 plus one-half of reported trade for 1948.
- g. [REDACTED]
- h. [REDACTED]
- i. Trade with the USSR as reported by Italy for the years 1949, 1950, and 1951.
- j. This is the difference between the trade projected for 1949 and the projected trade for the years of the agreement signed in Dec 1948 by Italy and the USSR.
- k. Five-year trade agreement signed 10 Jun 1948. Planned exchanges were announced only for the first year of the agreement.
- l. Average annual Netherlands-USSR trade reported by Netherlands for 1948 and 1949.
- m. [REDACTED]
- n. DRS Info. Paper 4, 22 Jan 1951, p. 25.
- o. Actual exports to the USSR in 1949 reported by Sweden totalled \$21.2 million. However, \$16 million were scheduled under the Sweden-USSR credit agreement of 1946 and were outside the 1949 trade agreement. DRS Info. Paper 4, 22 Jan 1951, p. 25.
- p. [REDACTED]

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S-E-C-R-E-T

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Table 2

Planned and Actual Imports of Grains from the USSR
for Belgium-Luxembourg, Italy, and the United Kingdom (for Periods Specified)

| Country | Metric Tons | |
|-----------------------------------------|------------------------------------------------------------|---------------------------------|
| | Planned Imports from the USSR under Trade Agreements | Actual Imports from the USSR |
| <u>Belgium-Luxembourg</u> | | |
| 1 May 1950 to 1 May 1951 ^{a/} | | |
| Wheat | 50,000 | |
| Rye | 50,000 | |
| Barley | 25,000 | |
| Oats | 25,000 | |
| Corn (Maize) | 150,000 | |
| | <u>300,000</u> | |
| Grains | | |
| Year 1950 ^{b/} | | 26,889 ^{d/} |
| 1st Half 1951 ^{a/} | | 77,724 |
| | | <u>104,613</u> |
| <u>Italy</u> | | |
| Year 1949 | | |
| Wheat | 500,000 ^{a/} | 140,951 ^{e/} |
| Wheat | | |
| Oct 1950 to Feb 1951 | 200,000 ^{a/} | |
| 2d Half 1950 | | 58,722 ^{b/} |
| 1st Quarter 1951 | | 91,898 ^{c/} |
| | | <u>150,620</u> |
| <u>United Kingdom</u> | | |
| 1 Feb 1948 to 30 Sep 1948 ^{f/} | | |
| Barley | 450,000 | |
| Corn (Maize) | 200,000 | |
| Oats | 100,000 | |
| | <u>750,000</u> | |
| Year 1948 | | |
| Grain (and Flour) ^{g/} | | 675,000 |

- a. [REDACTED]
- b. Department of Commerce, OIT Chart, Jul 1951.
- c. Department of Commerce, OIT Chart, Feb 1952.
- d. These imports were entirely in the 1st half of 1950 (Department of Commerce, OIT Chart, Oct 1950).
- e. ECA, Rome, R-57, 1 Aug 1949.
- f. Department of Commerce, OIT Chart, Aug 1950.
- g. Department of State, Rome, 1174, 19 Oct 1950.
- h. Department of Commerce, OIT Chart, Jun 1951; Statistica del Commercio con l'Estero, Italy, Jun-Jul 1950.
- i. Statistica del Commercio con l'Estero, Italy, Mar 1951 (1st half of 1951, wheat, 112,014 metric tons. Department of Commerce, OIT Chart, Jun 1951).
- j. Trade and Payments Agreements between the United Kingdom and the USSR, signed at Moscow, 27 Dec 1947, Soviet Union No. 1 (1948), London.
- k. Accounts Relating to the Trade and Navigation of the United Kingdom, London, Dec 1948. (The weight given was 13,440,277 cwt.) No separate data for grain imports from the USSR were given in this publication.

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